

Message Text

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ACTION EA-06

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C O N F I D E N T I A L SEOUL 5398

LIMDIS

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: PFOR, KS

SUBJECT: DEFENSE BUDGET INCREASES

1. SUMMARY: RECENT CONVERSATIONS WITH DEPUTY PRIME MINISTER NAM DUK WOO AND PRESIDENTIAL SECRETARY GENERAL KIM CHONG YOM, PROVIDED FURTHER INSIGHT INTO MOTIVATIONS FOR RECENTLY ENACTED DEFENSE TAX. BASIC OBJECTIVE IS TO PROVIDE THREE BILLION DOLLARS ADDITIONAL REVENUE FOR WEAPONS PROCUREMENT, (OVER AND ABOVE OPERATION AND MAINTENANCE COSTS DURING FIVE-YEAR PERIOD TO ACHIEVE SELF-RELIANT DEFENSE FORCE. MAJOR SHARE OF PROCUREMENT WILL INVOLVE THIRD COUNTRY PURCHASES, WITH US SOURCES GIVEN PRIORITY, HOWEVER, FOREIGN EXCHANGE COSTS MAY MOTIVATE PROCUREMENT FROM NON-US SOURCES. END SUMMARY.

2. AMBASSADOR MET PRIVATELY WITH NAM AND KIM DURING PAST WEEK AND BOTH DISCUSSED DEFENSE TAX PLANNING IN PARALLEL TERMS. BEFORE SEEKING DEFENSE TAX ENACTMENT BY NATIONAL ASSEMBLY, ECONOMIC CONFIDENTIAL

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IMPLICATIONS CAREFULLY CONSIDERED. WHILE RECOGNIZING INFLATIONARY IMPACT AT 3 PERCENT AND GNP AT 1 PERCENT LOSS, ECONOMIC COST VIEWED AS ACCEPTABLE. BOTH NAM AND KIM MADE CLEAR THAT DECISION TO RAISE DEFENSE BUDGET WAS

FINAL AND BASED UPON NEED TO ASSURE OVER FIVE YEAR PERIOD
SELF-RELIANT DEFENSE FORCE CAPABLE OF MATCHING
NORTH KOREAN MILITARY EFFORT WITHOUT REPEAT
WITHOUT RELYING ON US FORCES.

3. DEFENSE TAX ANTICIPATED TO RAISE THREE BILLION
DOLLARS OVER FIVE YEAR PERIOD. FUNDS WILL BE
EXPENDED FOR FORCE IMPROVEMENT AND PROCUREMENT
OF WEAPONS, RATHER THAN OPERATION AND MAINTENANCE
OF CURRENT FORCES. MND IS NOW DEVELOPING FIVE
YEAR PLAN FOR REVIEW BY PRESIDENT PARK. (MND SOURCES
HAVE CONFIRMED THIS TO MAAG). KIM ESTIMATED THAT
WEAPONS PROCUREMENT WOULD BE DIVIDED APPROXIMATELY
FIFTY-FIFTY BETWEEN OVERSEAS SOURCES AND LOCAL
SOURCES. NAM SUGGESTED HIGHER OVERSEAS FIGURE OF
APPROXIMATELY 2.5 BILLION DOLLARS, BUT THIS
PROBABLY INCLUDES ADDITION OF REGULAR
O&M COSTS FOR SPARE PARTS, ETC.

4. ACCORDING TO KIM, EMPHASIS OF DOMESTIC PRODUCTION
WILL BE ON SUCH ITEMS AS ARTILLERY, TANKS AND
HELICOPTERS, WITH ONLY KEY COMPONENTS SUCH AS
SPECIAL STEEL PURCHASED ABROAD. IN THIS CONNECTION
ROKG WILL PROBABLY BE PROPOSING SHORTLY PLAN FOR
COPRODUCTION OF HELICOPTERS. KOREAN GOVERNMENT
INTENDS TO PROCURE SUCH ITEMS AS AIRCRAFT, SPECIFICALLY F5ES
AND F16S, FROM US RATHER THAN ASSEMBLING THEM IN KOREA.
BOTH EMPHASIZED PROCUREMENT WOULD BE FROM US SOURCES
WHERE THERE IS NO PRICE DISADVANTAGE AND WHEN
US EQUIPMENT AVAILABLE ON TIMELY BASIS. HOWEVER
NAM HINTED THAT OTHER THIRD COUNTRY SOURCES MIGHT
BE PREFERRED, IF CREDIT TERMS MORE FAVORABLE.

5. NAM IS SERIOUSLY CONCERNED ABOUT FOREIGN EXCHANGE
COSTS OF FIVE YEAR PROGRAM. HE PRESSED AMBASSADOR
VERY HARD ON PROSPECTS FOR POST-MODERNIZATION PLAN
MILITARY ASSISTANCE THROUGH FMS CREDITS; IN THIS
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CONNECTION HE MENTIONED MND CONSIDERATION OF FIVE
HUNDRED MILLION DOLLARS ANNUAL LEVEL FOR FIVE YEARS
OF FMS CREDITS. HE ALSO MENTIONED THAT HE SENSES
GAP OF UNDERSTANDING BETWEEN MND AND US ON POSSIBILITIES
OF ASSISTANCE. HE NOTED THERE WERE TWO SCHOOLS OF
THOUGHT REGARDING ASSISTANCE, THOSE WHO FELT IT WOULD
END AFTER MOD-PLAN AND THOSE WHO FAVORED CONSULTING
WITH THE US ON NEW PROGRAM IN HOPE OF GAINING
ADDITIONAL ASSISTANCE.

6. AMBASSADOR POINTED OUT IT IMPOSSIBLE AT THIS POINT
TO PROJECT PROSPECTS FOR MILITARY ASSISTANCE IN FUTURE
YEARS. HE STRESSED CRUCIAL ROLE OF CONGRESS,

INCLUDING AUTHORIZATION FOR FMS CREDITS. HE POINTED OUT, AS BOTH NAM AND KIM AWARE, THAT CONGRESSIONAL SUPPORT FOR FUTURE AID TO KOREA INFLUENCED BY CONGRESSIONAL AND PUBLIC ASSESSMENT OF INTERNAL DEVELOPMENTS WITHIN KOREA. HE URGED CAREFUL ROKG CONSIDERATION OF THIS FACTOR.

7. AMBASSADOR SUGGESTED FIVE-YEAR PLAN BE DEVELOPED IN TIME FOR DISCUSSION WITH SECDEF DURING SCM, PARTICULARLY IF ROKG WISHED TO REVIEW PROSPECTS FOR ADDITIONAL US ASSISTANCE.

8. COMMENT: CONVERSATIONS WITH NAM AND KIM MAKE CLEAR ROKG DETERMINATION TO PRESS FORWARD WITH "SELF-RELIANCE" DEFENSE PROGRAM IRRESPECTIVE OF DOMESTIC OR FOREIGN EXCHANGE COSTS. BELIEVE OUR PROSPECTS FOR INFLUENCING DEFENSE PROGRAM, INCLUDING PROCUREMENT FROM US SOURCES, WOULD BE MUCH ENHANCED BY FULL DISCUSSION DURING SCM. ON OTHER HAND, RECOGNIZE PIT-FALLS OF GETTING TOO DEEPLY INVOLVED, IN TERMS ROKG PRESSURE FOR MAJOR NEW INPUTS OF US ASSISTANCE. WILL CONTINUE TO DO OUR BEST TO DISCOURAGE EXXAGGERATED EXPECTATIONS ON THIS SCORE.
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